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BEFORE THE ARIZONA CORPORATION COMMISSION

TOM FORESE CHAIRMAN	BOB BURNS COMMISSIONER	DOUG LITTLE COMMISSIONER
ANDY TOBIN COMMISSIONER	BOYD DUNN COMMISSIONER	

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	**DOCKET NO. E-01345A-16-0036** **DOCKET NO. E-01345A-16-0123**
IN THE MATTER OF FUEL AND PURCHASED POWER PROCUREMENT AUDITS FOR ARIZONA PUBLIC SERVICE COMPANY.	**ENERGY FREEDOM COALITION OF AMERICA'S NOTICE OF FILING WITNESS SUMMARY FOR MARK E. GARRETT**

Energy Freedom Coalition of America ("EFCA") hereby files the attached witness summary for Mark E. Garrett.

Respectfully submitted this 26th day of April, 2017.

/s/ Court S. Rich
Court S. Rich
Attorney for Energy Freedom Coalition of America

Original and 13 copies filed on this 26th day of April, 2017 with:

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I hereby certify that I have this day served a copy of the foregoing document on all parties of record in this proceeding by regular or electronic mail to:

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Mark Garrett Testimony Summary

April 3, 2017 Testimony

In Section 20.5 of the Settlement Agreement the parties agreed to litigate the issue of alternative rate design for large commercial and industrial customers independent of the Agreement. I offer my testimony for the purpose of addressing this issue as it pertains to the Large General Service ("LGS") rate classes. APS' existing LGS rates feature a demand ratchet mechanism. This mechanism discourages energy efficiency by effectively creating a fixed charge that eliminates energy storage as an option for LGS customers. I recommend that APS be directed to create a new optional rate for LGS storage customers that does not include a demand ratchet mechanism.

The demand ratchet mechanism enables APS to bill a customer based on that customer's demand during previous months and not necessarily their demand during the current month. This sends faulty price signals. Under APS's LGS ratchet, a customer has no economic incentive to reduce demand to lower than 80% of the previous 12 month's usage.

A demand ratchet significantly reduces the economic incentives associated with storage technologies. For example, commercial customers with storage who reduce demand peaks to less than 80% of the customer's May-October summer peak will not realize savings for the following 12 months due to the ratchet. The risk of having a years' worth of potential savings eliminated by one adverse 15-minute interval is too high for potential storage customers and those financing storage projects to bear. Even if customers could achieve perfect permanent demand reduction, the lag of one year to realize benefits is significant for a technology that generally has a 10-year life. Customers are less likely to invest in storage if they cannot realize the economic benefits. APS's existing ratchet is simply not conducive to the adoption of storage, and adoption will be further thwarted with the continuation of a ratchet in the LGS rate.

APS has also proposed to maintain the declining block rate design currently used in its LGS classes. This rate design does not send an appropriate signal to customers to reduce demand, as customers are charged a lower rate for higher demand, and as such, it is contrary to Commission policy.

I recommend that the Commission direct APS to change the declining block structure of the demand charge to a flat rate design for the non-ratcheted LGS rate option. APS's LGS TOU rate also features an off-peak demand rate, which is not justified. Peak demand drives costs for ratepayers, so shifting demand to off-peak periods should be incentivized.

April 17, 2017 Testimony

APS witness Charles Miessner recommended continued use of demand ratchets in LGS classes in his direct testimony. Mr. Miessner defends the use of demand ratchets from a cost recovery perspective instead of a price signal perspective, but I believe that both goals can be achieved through better rate design.

Mr. Miessner provided several examples of how he believes a single customer would not pay its cost of service absent a demand ratchet. The examples he provided were based on several false premises: (1) that grid costs are upgraded to serve one specific customer (2) that this specific customer actually pays for only those upgrade costs, (3) that EFCA is proposing to eliminate the demand ratchets for the class,

(4) that other customers would object if the ratchets were eliminated, and (5) that ratchets are necessary to fully recover the costs of the system.

In reality, the system is almost never upgraded to serve one specific customer. It would be impractical to add 1,000 kW of generation capacity, or a 1,000 kW transmission line, or a 1,000 kW substation each time a new, individual, 1 MW customer comes onto the system. Instead, grid upgrade costs are socialized among all customers in the class. It is very rare, but there may be times when grid upgrades are made for one specific customer, however, in that event the customer will generally pay for the upgrade through a customer advance or Contribution in Aid of Construction ("CIAC"). More importantly, production capacity is virtually never expanded for just one customer.

Mr. Miessner's examples assume that the customer pays exclusively for its specific grid upgrade costs. If this were the case, the customer in his examples would pay lower costs year after year as the customer's specific investment levels decrease each year through depreciation recoveries. However, this is not how ratemaking actually works, and system costs are socialized among all class members. So, instead of costs going down each year as the upgrade costs for a specific customer are recovered, costs remain the same, or usually increase, as new investments for other customers are added to the system, and the costs of these additions are spread among all customers in the class.

It is inaccurate to say that EFCA is recommending that demand ratchets be eliminated for the entire class because EFCA's recommendation is to provide an option to the demand ratchet for storage customers. Also, it is very unlikely that any other customers would object to the removal of demand ratchets for storage customers. Ratchets are installed for the benefit of the utility, not the customer. Finally, it is inaccurate to suggest that demand ratchets are necessary to fully recover costs in the LGS classes because APS has only had the ratchet mechanism in place in these classes since 2012, so prior to that time the costs of the LGS classes were recovered without the use of ratchets.

In my testimony I developed revenue-neutral LGS storage rates using data provided by the Company. My rates eliminated the ratchets, the declining blocks and the off-peak demand charges. These rates remove the artificial barriers to storage that now exist in the LGS rates. Moreover, since these rates are revenue-neutral, they do not provide an incentive to the storage customers; they only eliminate the disincentives that now exist.

Finally, I point out that this Commission has recognized that storage is an important and promising technology that will benefit the entire system by displacing expensive resource additions.